# The Community Hospital Association
# (d/b/a Boulder Community Hospital)

Financial Statements

(With Independent Auditor's Reports Thereon)

December 31, 2012 and 2011

**THE COMMUNITY HOSPITAL ASSOCIATION**
(d/b/a Boulder Community Hospital)

December 31, 2012 and 2011

## Contents

BKD LLP
CPAs & Advisors

Wells Fargo Center
1700 Lincoln Street, Suite 1400
Denver, CO 80203-4514
303.861.4545 Fax 303.832.5705 www.bkd.com

# Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Directors
The Community Hospital Association d/b/a
Boulder Community Hospital
Boulder, Colorado

## Report on the Financial Statements

We have audited the accompanying financial statements of The Community Hospital Association d/b/a Boulder Community Hospital (the Hospital), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2012 and 2011, and the results of its operations, the changes in net assets and its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the 2012 financial statements as a whole. The accompanying supplementary information, including the schedule of expenditures of federal awards required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2012 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2012 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2012 financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated April 15, 2013, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Denver, Colorado
April 15, 2013

# THE COMMUNITY HOSPITAL ASSOCIATION

(d/b/a Boulder Community Hospital)

Balance Sheets

December 31, 2012 and 2011

| **Assets** | **2012** | **2011** |
|---|---|---|
| Current assets | | |
| Cash and cash equivalents | $ 6,748,498 | $ 2,697,649 |
| Assets limited as to use required for current liabilities | 13,673,715 | 5,220,472 |
| Accounts receivable from patient services, net of allowances for uncollectible accounts of approximately $12,001,000 and $15,697,000 in 2012 and 2011, respectively | 35,303,088 | 37,424,132 |
| Supplies inventory | 2,871,946 | 3,111,110 |
| Prepaid expenses and other current assets | 4,889,044 | 4,590,784 |
| Total current assets | 63,486,291 | 53,044,147 |
| Assets limited as to use, net of current portion | 319,299,723 | 277,309,497 |
| Land, buildings, and equipment, net | 171,335,480 | 147,720,367 |
| Unamortized bond issuance costs, net | 1,513,570 | 1,185,794 |
| Other | 10,134,597 | 7,362,922 |
| Interest in net assets held by Boulder Community Hospital Foundation | 30,958,764 | 23,140,442 |
| Total assets | $ 596,728,425 | $ 509,763,169 |
| **Liabilities and Net Assets** | | |
| Current liabilities | | |
| Current maturities of long-term debt | $ 7,425,000 | $ 6,610,000 |
| Accounts payable | 10,862,206 | 10,669,404 |
| Accounts payable – construction | 6,186,432 | 82,653 |
| Accrued salaries, wages, and employee benefits | 11,084,420 | 9,945,904 |
| Accrued vacation and sick pay | 9,632,978 | 9,116,730 |
| Accrued interest | 1,197,944 | 902,891 |
| Other current liabilities | 8,456,716 | 6,464,863 |
| Estimated settlement due to third parties | 3,525,530 | 3,005,743 |
| Total current liabilities | 58,371,226 | 46,798,188 |
| Accrued pension benefit liability | 51,753,295 | 31,593,504 |
| Derivative liability | 12,224,411 | 16,353,952 |
| Long-term debt, net of current maturities | 169,032,814 | 144,924,118 |
| Total liabilities | 291,381,746 | 239,669,762 |
| Net assets | | |
| Unrestricted | 274,028,058 | 246,571,259 |
| Temporarily restricted | | |
| Held by Boulder Community Hospital | 359,857 | 381,706 |
| Held by Boulder Community Hospital Foundation | 25,947,733 | 18,265,190 |
| Total temporarily restricted net assets | 26,307,590 | 18,646,896 |
| Permanently restricted | | |
| Held by Boulder Community Hospital Foundation | 5,011,031 | 4,875,252 |
| Total net assets | 305,346,679 | 270,093,407 |
| Commitments and contingencies | | |
| Total liabilities and net assets | $ 596,728,425 | $ 509,763,169 |

**THE COMMUNITY HOSPITAL ASSOCIATION**
(d/b/a Boulder Community Hospital)

Statements of Operations

Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| Unrestricted revenue and other support | | |
| Net patient service revenue | $ 291,250,759 | $ 284,662,202 |
| Provision for uncollectible patient accounts | (18,326,057) | (23,573,766) |
| Net patient service revenue less provision for uncollectible accounts | 272,924,702 | 261,088,436 |
| Other operating revenue | 18,584,482 | 12,037,622 |
| Net assets released from restrictions – operations | 1,302,947 | 1,071,395 |
| Total unrestricted revenue and other support | 292,812,131 | 274,197,453 |
| Expenses | | |
| Salaries, wages, and employee benefits | 149,908,846 | 138,920,197 |
| Supplies and other | 88,509,024 | 84,976,600 |
| Medicaid Provider Fee | 15,750,703 | 12,392,020 |
| Specialists' fees | 6,368,336 | 5,236,693 |
| Depreciation | 17,663,498 | 17,585,621 |
| Interest and amortization | 2,872,543 | 3,379,277 |
| Total expenses | 281,072,950 | 262,490,408 |
| Operating income | 11,739,181 | 11,707,045 |
| Other income | | |
| Investment income | 7,863,501 | 7,510,507 |
| Realized gain on investments | 4,038,718 | 3,809,195 |
| Other, net of $1,190,187 and $1,631,863 in 2012 and 2011, respectively, in nonoperating depreciation expense | 1,589,555 | 628,565 |
| Other income, excluding interest rate swaps and other than temporary investment impairment losses | 13,491,774 | 11,948,267 |
| Unrestricted revenue and gains in excess of expenses before unrealized gains on interest rate swaps and unrealized gains on investments | $ 25,230,955 | $ 23,655,312 |

**THE COMMUNITY HOSPITAL ASSOCIATION**
(d/b/a Boulder Community Hospital)

Statements of Operations (continued)

Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| Unrestricted revenue and gains in excess of expenses before unrealized gains on interest rate swaps and unrealized gains on investments | $ 25,230,955 | $ 23,655,312 |
| Unrealized gains (losses) on interest rate swaps and investments | | |
| Unrealized gain (loss) on interest rate swaps, net of $1,572,271 and $1,704,926 in 2012 and 2011, respectively, in interest (income) expense | 2,796,905 | (5,996,289) |
| Change in net unrealized gain (loss) on marketable securities | 18,375,749 | (10,209,247) |
| | 21,172,654 | (16,205,536) |
| Unrestricted revenue and gains in excess of expenses | 46,403,609 | 7,449,776 |
| Other changes in unrestricted net assets | | |
| Amortization of previously recognized loss on ineffective interest rate swap | (239,635) | (239,635) |
| Net assets released from restriction used to purchase equipment | 61,338 | 1,010,529 |
| Change in minimum pension liability | (18,768,513) | (12,615,797) |
| Increase (decrease) in unrestricted net assets | $ 27,456,799 | $ (4,395,127) |

**THE COMMUNITY HOSPITAL ASSOCIATION**
(d/b/a Boulder Community Hospital)

Statements of Changes in Net Assets

Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| Unrestricted net assets | | |
| Unrestricted revenue and gains in excess of expenses | $ 46,403,609 | $ 7,449,776 |
| Amortization of previously recognized loss on ineffective interest rate swap | (239,635) | (239,635) |
| Net assets released from restriction used to purchase equipment | 61,338 | 1,010,529 |
| Change in minimum pension liability | (18,768,513) | (12,615,797) |
| Increase (decrease) in unrestricted net assets | 27,456,799 | (4,395,127) |
| Temporarily restricted net assets | | |
| Contributions received | 1,342,436 | 2,125,523 |
| Net assets released from restriction | | |
| Capital acquisitions | (61,338) | (1,010,529) |
| Operations | (1,302,947) | (1,071,395) |
| (Decrease) increase in temporarily restricted net assets held by Boulder Community Hospital | (21,849) | 43,599 |
| Net change in assets held by Boulder Community Hospital Foundation | 7,682,543 | 1,378,821 |
| Total increase in temporarily restricted net assets | 7,660,694 | 1,422,420 |
| Permanently restricted net assets | | |
| Net change in assets held by Boulder Community Hospital Foundation | 135,779 | (132,117) |
| Increase (decrease) in permanently restricted net assets | 135,779 | (132,117) |
| Increase (decrease) in net assets | 35,253,272 | (3,104,824) |
| Net assets, beginning of year | 270,093,407 | 273,198,231 |
| Net assets, end of year | $ 305,346,679 | $ 270,093,407 |

*See notes to financial statements.*

**THE COMMUNITY HOSPITAL ASSOCIATION**
(d/b/a Boulder Community Hospital)

Statements of Cash Flows

Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| Cash flows from operating activities | | |
| Change in net assets | $ 35,253,272 | $ (3,104,824) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Realized and unrealized change in assets owned by Boulder Community Hospital Foundation | (7,818,322) | (1,246,704) |
| Change in net realized and unrealized gains or loss on marketable securities | (22,414,467) | 6,400,052 |
| Gain on investments in medical joint ventures | (6,564,409) | (5,616,089) |
| Depreciation | 17,663,498 | 17,585,621 |
| Amortization | 164,519 | 204,033 |
| Loss (gain) on disposition of assets | (749,431) | 187,557 |
| Provision for uncollectible patient accounts | 18,326,057 | 23,573,766 |
| Change in minimum pension liability | 18,768,513 | 12,615,797 |
| Unrealized (gain) loss on interest rate swaps | (4,129,541) | 4,530,998 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (16,205,013) | (27,132,597) |
| Supplies inventory | 239,164 | (1,742,688) |
| Prepaid expenses and other current assets | (298,260) | (1,242,081) |
| Other assets | (2,660,675) | (1,002,696) |
| Accounts payable | 110,149 | 248,741 |
| Accrued salaries, wages, and employee benefits | 1,138,516 | 1,663,141 |
| Accrued vacation and sick pay | 516,248 | 297,843 |
| Accrued interest | 295,053 | 472,631 |
| Other current liabilities | 1,991,853 | 209,754 |
| Accrued pension benefit liability | 1,391,278 | 1,925,258 |
| Estimated settlement due to third parties | 519,787 | 1,129,311 |
| Net cash provided by operating activities | 35,537,789 | 29,956,824 |
| Cash flows from investing activities | | |
| Acquisition of land, buildings, and equipment | (41,993,857) | (20,792,922) |
| Proceeds from sales of land, buildings, and equipment | 7,651,109 | 189,941 |
| Payments received for notes receivable | 185,341 | 621,753 |
| Investments in medical joint ventures | (555,395) | (265,305) |
| Distributions from medical joint ventures | 6,524,409 | 5,622,418 |
| Purchases of investments | (89,944,545) | (57,772,771) |
| Sales and maturities of investments | 61,915,543 | 44,127,119 |
| Net cash used in investing activities | (56,217,395) | (28,269,767) |

**THE COMMUNITY HOSPITAL ASSOCIATION**
(d/b/a Boulder Community Hospital)

Statements of Cash Flows (continued)

Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| Cash flows from financing activity | | |
| Borrowing | $ 31,748,673 | $ 67,682 |
| Repayment/repurchase of bonds and other debt | (6,569,875) | (5,973,351) |
| Payment of deferred financing costs | (448,343) | - |
| Net cash provided by (used in) financing activity | 24,730,455 | (5,905,669) |
| Net increase (decrease) in cash and cash equivalents | 4,050,849 | (4,218,612) |
| Cash and cash equivalents, beginning of year | 2,697,649 | 6,916,261 |
| Cash and cash equivalents, end of year | $ 6,748,498 | $ 2,697,649 |
| Supplemental cash flows information | | |
| Property and equipment financed in accounts payable | $ 6,186,432 | $ 82,653 |
| Interest paid (net of amount capitalized) | $ 2,407,587 | $ 2,698,995 |

**THE COMMUNITY HOSPITAL ASSOCIATION**
(d/b/a Boulder Community Hospital)

Notes to Financial Statements

December 31, 2012 and 2011

**(1) Organization**

The Community Hospital Association d/b/a Boulder Community Hospital (the Hospital) is a not-for-profit corporation located in Boulder, Colorado that was incorporated in 1922. Governed by a 15-member Board of Directors, the Hospital owns and operates Boulder Community Hospital (the Broadway Campus), a general acute care hospital with 211 licensed beds (of which 134 are staffed) and Boulder Community Foothills Hospital (the Foothills Campus), a general acute care hospital specializing in women's and children's services with 54 licensed beds (50 of which are staffed). In addition, the Hospital operates a network of health care facilities offering preventive, ambulatory, specialty, home care, secondary, and tertiary services located in Boulder and Broomfield counties.

Boulder Community Hospital Foundation (the Foundation) was incorporated in August 1978 to solicit and receive contributions for the Hospital's benefit. In the absence of donor restrictions, the Foundation's Board of Directors has discretionary control over the amounts to be distributed to the Hospital, the timing of such distributions, and the purposes for which such funds are to be used. One member of the Hospital's Board of Directors serves on the 20-member Board of Directors of the Foundation.

Under accounting principles generally accepted in the United States of America, the Hospital is deemed to be a financially interrelated beneficiary of the Foundation. Therefore, the net assets of the Foundation have been shown on the Hospital's balance sheets as net assets held by the Boulder Community Hospital Foundation. The net assets held by the Foundation are reflected in temporarily and permanently restricted net assets. Contributions made by the Foundation to the Hospital during the years ended December 31, 2012 and 2011 were approximately $471,000 and $1,484,000, respectively.

**(2) Summary of Significant Accounting Policies**

*(a)* ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

*(b)* ***Cash and Cash Equivalents***

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, excluding amounts whose use is limited by the Board of Directors or other arrangements under trust agreements.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the $250,000 limit on FDIC insurance per covered institution.

*(c)* ***Investments and Investment Income***

Investments in equity securities with readily determinable fair values and marketable debt securities are carried at fair value based on the most recent market quotations.

For equity funds and international equity funds that are not publicly traded, fair values are based on the underlying investments, which are publicly traded. For alternative investments, which include fund of funds investments, fair values are based on estimates or net asset values reported by fund managers where quoted market prices do not exist. The Hospital reviews and evaluates the estimated values by comparing them to audited financial statements of the funds and other similar procedures.

Investment income on proceeds of borrowings that are held by a trustee, to the extent not capitalized, is reported as other operating revenue. Investment income and realized gains and losses from all other investments are reported as other income.

The Hospital treats its investments as trading resulting in the gains and losses being included in unrestricted revenue and gains in excess of expenses in the statement of operations.

*(d)* ***Assets Limited as to Use***

Assets limited as to use include assets set aside by the Board of Directors for future capital improvements over which the Board retains control (and may, at its discretion, subsequently use for other purposes), assets held by trustees under indenture agreements, self-insurance funds held by trustees, and collateral held by a derivative counterparty.

*(e)* ***Financial Instruments***

Financial instruments consist of cash and cash equivalents, patient accounts receivable, assets limited as to use, interest rate swap agreements, notes receivable, accounts payable, and long-term debt. The carrying amounts reported in the balance sheets for cash equivalents, patient accounts receivable, assets limited as to use, interest rate swap agreements, notes receivable, and accounts payable approximate fair value. The estimated fair value of long-term debt is discussed in Note 8.

*(f)* ***Patient Accounts Receivable***

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital's allowance for doubtful accounts for self-pay patients increased from 105% of self-pay accounts receivable at December 31, 2011, to 112% of self-pay accounts receivable at December 31, 2012. The allowance includes a reserve for deductible and copayments classified within insured accounts receivable at year-end. In addition, the Hospital's write-offs decreased approximately $779,000 from approximately $21,002,000 for the year ended December 31, 2011, to approximately $20,223,000 for the year ended December 31, 2012. The decrease in bad debt write-offs results from a focused effort to identify patients eligible for charity care and an expansion of the Hospital's prompt pay discount program.

*(g)* ***Supplies Inventory***

The Hospital states supply inventories at the lower of cost, determined using the first-in, first-out method, or market.

*(h)* ***Land, Buildings, and Equipment***

Land, buildings, and equipment are recorded at cost when purchased or at fair value when received by donation. Improvements and replacements are capitalized, and repairs and maintenance are expensed in the period incurred. The cost and accumulated depreciation for property sold or retired is removed from the accounts, and the resulting gain or loss is reflected as other income (loss).

The provision for depreciation is calculated using the straight-line method, which allocates the cost of the properties equally over their estimated useful lives. Depreciable lives range from 10 to 13 years for land improvements, 20 to 40 years for buildings, 12 to 15 years for building improvements, 14 to 16 years for building service equipment, and 3 to 6 years for equipment.

*(i)* ***Joint Ventures***

Investments in joint ventures are accounted for using the equity method. The Hospital ownership percentage of joint venture income is recognized in other operating revenue for health care-related ventures and in other income for non-health care ventures.

*(j)* ***Unamortized Bond Issuance Costs***

Bond issuance costs are amortized over the estimated lives of the related bonds using the effective interest method. When the related debt is refunded prior to its original maturity, the remaining costs are expensed as part of the refunding.

*(k)* ***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those assets whose use by the Hospital or distribution by the Foundation (Note 9) has been limited by donors to a specific purpose. Permanently restricted net assets include assets held by the Foundation that have been restricted by donors to be maintained in perpetuity.

*(l)* ***Unrestricted Revenue and Gains in Excess of Expenses***

The statements of operations include unrestricted revenue and gains in excess of expenses, which includes transactions deemed by management to be ongoing, major, or central to the provision of health care services. Consistent with industry practice, changes in unrestricted net assets that are excluded from unrestricted revenue and gains in excess of expenses include net assets released from restriction used to purchase equipment, recognition of the minimum pension liability related to the Hospital's defined benefit pension plan, and amortization of previously recognized loss on ineffective interest rate swap.

*(m)* ***Net Patient Service Revenue***

Net patient service revenue is recognized in the period services are performed and is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered. Amounts reimbursed for services covered under Medicare, Medicaid, and other third-party payors are generally less than established billing rates. Differences between established billing rates and amounts reimbursed are recognized as contractual adjustments.

Amounts receivable under reimbursement agreements with Medicare and Medicaid programs are subject to audit and retroactive adjustment. Provisions for estimated retroactive adjustments under such programs are provided in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient revenue for the years ended December 31, 2012 and 2011, increased approximately $81,000 and $100,000, respectively, due to changes in previously estimated allowances as a result of final settlements and prior-year retroactive adjustments.

*(n)* ***Estimated Medical Malpractice Claims***

The Hospital maintains a claims-made insurance policy for claims arising from providing professional and patient care and is self-insured for claim deductibles. The Hospital has accrued the estimated cost of medical claims not reported to the insurance carrier at December 31, 2012 and 2011. The accrual is based on the estimated aggregate as determined periodically by actuarial consultants. Additionally, the Hospital provides an accrual for the estimated cost associated with claims made in excess of the insurance limits. The Hospital has accrued approximately $3,104,000 and $3,001,000 as of December 31, 2012 and 2011, respectively, for these estimated medical claims.

*(o)* ***Self-insurance***

The Hospital is self-insured for costs related to employee health and accident benefit programs. The Hospital has employed an independent actuary to estimate the cost of the settlement of known and incurred but not recorded claims as of year-end. The accrued health insurance liabilities were approximately $1,200,000 and $1,400,000 as of December 31, 2012 and 2011, respectively. The Hospital maintains a stop-loss policy for individual claims in excess of $350,000.

*(p)* ***Workers' Compensation Claims***

The Hospital is self-insured for workers' compensation claims. There are known claims and incidents that may result in the assertion of additional claims, as well as claims for unknown incidents that may be asserted against the Hospital. The Hospital has employed an independent actuary to estimate the ultimate cost of the settlement of such claims. Accrued workers' compensation losses were approximately $2,440,000 as of December 31, 2012 and 2011, as determined periodically by actuarial consultants. The Hospital maintains a stop-loss policy for individual claims in excess of $500,000.

*(q)* ***Interest Expense***

Interest cost incurred during the construction of an asset financed by tax-exempt borrowings is capitalized, net of any interest income earned on the related bond funds held by the trustee. Interest cost incurred during the construction of an asset not financed by tax-exempt debt is capitalized based on weighted average construction expenditures and the Hospital's effective interest rate. The Hospital capitalized approximately $1,623,000 and $871,000 of interest cost in 2012 and 2011, respectively. Cash paid for interest was approximately $4,030,000 and $3,570,000 in 2012 and 2011, respectively.

*(r)* ***Contributions and Bequests***

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give are reported at fair value when the condition is met. The gifts are reported as either temporarily restricted or permanently restricted if they are received with donor stipulations that limit the use of the gift. When a donor restriction expires, that is, when a stipulated time restriction ends and/or purpose restriction has been met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

*(s)* ***Income Taxes***

The Hospital is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) of the Code. However, income generated from activities unrelated to the Hospital's exempt purpose is subject to tax under Section 511 of the Code.

The Foundation is also exempt from federal income taxes under Section 501(a) of the Code as an organization described in Section 501(c)(3) of the Code. However, income generated from activities unrelated to the Foundation's exempt purpose is also subject to tax under Section 511 of the Code.

*(t)* ***Long-Lived Assets***

In accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 360, *Property, Plant and Equipment,* long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. No impairments were recognized in either 2012 or 2011.

*(u)* ***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and* Reinvestment *Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue at the end of the federal reporting period when management is reasonably assured it will meet all of the meaningful use objectives and all other contingencies have been met.

In 2012, the Hospital completed the first year requirements under both the Medicare and Medicaid programs and has recorded revenue of approximately $2,446,000, which is included in other revenue within operating revenues in the statement of operations.

*(v)* ***Reclassifications***

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net assets.

## (3) Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these charges are not reported as revenue. However, the Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges. The following information measures the level of charity care provided during the years ended December 31, 2012 and 2011.

| | 2012 | 2011 |
|---|---|---|
| Charges forgone, based on established rates | $ 36,889,000 | $ 30,744,000 |
| Estimated costs and expenses incurred to provide charity care | 10,842,000 | 8,574,000 |
| Equivalent percentage of charity care patients to all patients served | 3.8% | 3.4% |

## (4) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

*(a)* ***Medicare***

Inpatient acute-care services rendered under the Medicare program are paid at prospectively determined rates per discharge. These rates vary according to a Medicare Severity Diagnostic Related Group (MS-DRG) patient classification system that is based on clinical, diagnostic, and other factors. Inpatient rehabilitation services are paid at prospectively determined rates per discharge. Rates vary according to a Case Mix Group (CMG) patient classification system that is based on clinical, diagnostic, and other factors. Inpatient psychiatric services are reimbursed at prospectively determined rates based on length of stay, diagnosis, age, and co-morbidity. Outpatient services rendered under the Medicare program are paid based on the Ambulatory Payment Classification (APC) system. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and medical necessity of procedures performed are subject to an independent audit by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2005. The

2006 year has been reopened by Medicare for outlier reimbursement on inpatient rehabilitation claims. The Medicare cost reports for 2008, 2010, and 2011 remain unaudited, while the 2007 and 2009 audits were completed by Medicare during 2012 and 2011, respectively.

*(b)* ***Medicaid***

Inpatient services rendered under the Medicaid program are paid under a prospectively determined system similar to Medicare. Outpatient services are primarily paid on an interim basis using a tentative payment rate, which approximates the costs incurred less 28%. Final settlement is determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's classification of patients under the Medicaid program and medical necessity of procedures performed are subject to an independent audit by a peer review organization under contract with the Hospital. The Hospital's cost reports have been audited by the Medicaid fiscal intermediary through December 31, 2007.

*(c)* ***Other Payors***

The Hospital has also entered into payment agreements with commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements is generally based on prospectively determined daily or case rates for inpatient services and negotiated percentage of charges for outpatient services.

Net patient services revenue as reflected in the accompanying statements of operations consists of the following:

| | 2012 | 2011 |
|---|---|---|
| Medicare | $ 57,448,957 | $ 56,044,229 |
| Medicaid | 14,546,746 | 11,375,831 |
| Other third-party payers | 205,169,609 | 195,182,688 |
| Self-pay | 14,085,447 | 22,059,454 |
| | $ 291,250,759 | $ 284,662,202 |

The Colorado Healthcare Affordability Act, designated as House Bill 1293 (HB1293), was passed during 2009 implementing a fee on hospitals to generate matching funds to the state of Colorado from federal sources. Colorado hospitals with high Medicaid volumes benefit from HB1293; those adversely impacted were made whole by the Colorado Hospital Association through a redistribution pool. Implementation of the act occurred during April 2010 and had the following effect on the Hospital's financial statements:

| | 2012 | 2011 |
|---|---|---|
| Deductions from patient charges | | |
| Colorado Indigent Care Program revenue | $ 3,635,828 | $ 4,370,621 |
| Provider Fee recovery revenue | 9,580,925 | 8,021,555 |
| Total increase to net patient service revenue | 13,216,753 | 12,392,176 |
| Total increase to other operating revenue from redistribution pool | 3,597,582 | 1,063,488 |
| Provider Fee expense in expenses | (15,750,703) | (12,392,040) |
| Impact on operating income | $ 1,063,632 | $ 1,063,624 |

## (5) Assets Limited as to Use

The Hospital provides for future expansion and equipment acquisitions by funding depreciation. Funded depreciation and assets limited as to use under bond trust indentures and interest rate swap agreements at December 31, 2012 and 2011, are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Cost** | **Fair value** | **Cost** | **Fair value** |
| Funded depreciation | | | | |
| Cash and cash equivalents | $ 2,041,700 | $ 2,041,700 | $ 387,315 | $ 387,315 |
| Bond funds | 101,461,918 | 102,205,604 | 100,476,432 | 97,278,551 |
| Municipal bonds | 1,180,751 | 1,608,462 | 9,065,734 | 9,819,461 |
| U.S. government obligations | 6,373,702 | 6,411,504 | 3,557,474 | 3,601,472 |
| Corporate bonds and notes | 33,806,638 | 37,397,167 | 54,328,113 | 56,004,155 |
| Asset-Backed Securities | 10,157,500 | 11,424,605 | - | - |
| Common stock | 5,963,902 | 7,040,454 | 5,412,626 | 6,112,973 |
| Equity funds | 40,233,901 | 43,355,539 | 25,887,279 | 25,637,674 |
| International equity funds | 35,025,013 | 31,471,323 | 28,192,750 | 20,338,720 |
| Long/short equity fund | 15,353,572 | 16,862,703 | 13,353,572 | 13,858,347 |
| Long/short fixed income funds | 24,968,095 | 27,031,225 | 15,000,709 | 14,582,864 |
| Fund of hedge funds | 1,860,772 | 2,074,003 | 2,730,120 | 2,845,573 |
| Accrued interest | 538,312 | 538,312 | 869,130 | 869,130 |
| | 278,965,776 | 289,462,601 | 259,261,254 | 251,336,235 |
| Funds required by bond indentures | | | | |
| Cash and cash equivalents | 8,375,894 | 8,376,418 | 6,022,725 | 6,022,336 |
| U.S. government obligations | - | - | 1,501,199 | 1,570,794 |
| Corporate bonds and notes | 33,726,971 | 33,619,435 | 20,687,664 | 20,542,233 |
| Accrued interest | 80,137 | 80,137 | 97,236 | 97,236 |
| | 42,183,002 | 42,075,990 | 28,308,824 | 28,232,599 |
| Workers’ compensation self-insurance funds | | | | |
| Cash and cash equivalents | 30,000 | 30,000 | 30,000 | 30,000 |
| U.S. government obligations | 1,203,745 | 1,401,347 | 1,204,586 | 1,417,500 |
| Accrued interest | 3,500 | 3,500 | 3,500 | 3,500 |
| | 1,237,245 | 1,434,847 | 1,238,086 | 1,451,000 |
| Derivative collateral | | | | |
| Cash and cash equivalents | - | - | 1,510,135 | 1,510,135 |
| Total assets limited as to use | 322,386,023 | 332,973,438 | 290,318,299 | 282,529,969 |
| Less amounts required for current liabilities | (13,673,715) | (13,673,715) | (5,220,472) | (5,220,472) |
| Assets limited as to use, net of current portion | $ 308,712,308 | $ 319,299,723 | $ 285,097,827 | $ 277,309,497 |

### *Alternative Investments*

Except as described below, the fair value of alternative investments has been estimated using the net asset value per share of the investments. Alternative investments held at December 31 consist of the following:

| | December 31, 2012 | | |
|---|---|---|---|
| | **Fair Value** | **Redemption Frequency** | **Redemption Notice Period** |
| Fixed income long/short funds (A) | $ 27,031,225 | Monthly - Quarterly | Funds vary from 7 - 120 days |
| Equity long/short funds (B) | 16,862,703 | Quarterly | 60 days |
| Equity funds (C) | 8,814,011 | Monthly | 3 days prior to month-end |
| Fund of hedge funds (D) | 2,074,003 | Quarterly | 91 days |
| Asset-backed (E) | 5,840,924 | None | Expected Liquidation - December 31, 2014 |

| | December 31, 2011 | | |
|---|---|---|---|
| | **Fair Value** | **Redemption Frequency** | **Redemption Notice Period** |
| Fixed income long/short funds (A) | $ 14,582,464 | Monthly - Quarterly | Funds vary from 7 - 120 days |
| Equity long/short funds (B) | 13,858,347 | Quarterly | 60 days |
| Equity funds (C) | 7,793,529 | Monthly | 3 days prior to month-end |
| Fund of hedge funds (D) | 2,845,573 | Quarterly | 91 days |

(A) This category includes funds invested primarily in debt instruments, including but not limited to, domestic and international bonds, loans, and derivatives.

(B) This category includes investments in hedge funds that take both long and short positions in multi-strategy equity investment funds.

(C) This category includes investments in funds primarily invested in common stocks and similar equity securities.

(D) This category includes investments of mutual funds managed to maintain a portfolio of alternative asset managers that seek to earn above-average, long-term returns.

(E) This category includes investments in asset-backed securities.

The following schedule summarizes the investment return on assets held by the Hospital and its classification in the accompanying statements of operations and changes in net assets.

| | 2012 | 2011 |
|---|---|---|
| Unrestricted net assets | | |
| Interest and dividend income from funded depreciation | $ 7,670,402 | $ 7,279,905 |
| Interest income from workers' compensation self-insurance fund | 59,159 | 59,200 |
| Interest income from notes receivable | 131,685 | 171,150 |
| Interest income from operating funds | 2,255 | 252 |
| Investment income | 7,863,501 | 7,510,507 |
| Interest income from funds required by bond indentures included in other operating revenue | 163,088 | 339,004 |
| Realized gain on investments | 4,038,718 | 3,809,195 |
| Net change in unrealized gain or loss on marketable securities | 18,375,749 | (10,209,247) |
| | 22,577,555 | (6,061,048) |
| Net return on investments | $ 30,441,056 | $ 1,449,459 |

## (6) Other Assets

Other assets consist of the following at December 31:

| | 2012 | 2011 |
|---|---|---|
| Notes receivable | $ 2,241,430 | $ 2,426,771 |
| Investment in joint ventures | 3,013,036 | 2,430,621 |
| Deferred 457(b) and 457(f) Assets | 4,097,924 | 1,865,336 |
| Other | 782,207 | 640,194 |
| Total | $ 10,134,597 | $ 7,362,922 |

## (7) Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following at December 31:

| | 2012 | 2011 |
|---|---|---|
| Land | $ 23,081,774 | $ 25,150,958 |
| Land improvements | 7,807,280 | 7,834,764 |
| Buildings and improvements | 114,505,723 | 117,766,530 |
| Building service equipment | 68,760,589 | 68,834,149 |
| Equipment | 111,116,360 | 103,030,107 |
| Construction in progress | 42,447,452 | 8,225,678 |
| | 367,719,178 | 330,842,186 |
| Less accumulated depreciation | (196,383,698) | (183,121,819) |
| Land, buildings, and equipment, net | $ 171,335,480 | $ 147,720,367 |

Construction commitments as of December 31, 2012 and 2011 were approximately $71,546,000 and $96,677,000, respectively.

## (8) Long-Term Debt

Long-term debt consists of the following at December 31:

| | 2012 | 2011 |
|---|---|---|
| Colorado Health Facilities Authority Revenue Bonds, Series 2012, net of premium of $1,711,977 at December 31, 2012; fixed interest rates | $ 31,711,977 | $ - |
| Colorado Health Facilities Authority Revenue Bonds, Series 2010A, net of premium of $496,294 and $685,535 at December 31, 2012 and 2011, respectively; fixed interest rates | 62,361,294 | 64,805,535 |
| Colorado Health Facilities Authority Revenue Bonds, Series 2010B; variable interest rates | 25,115,000 | 25,870,000 |
| Colorado Health Facilities Authority Revenue Bonds, Series 2000; variable interest rates | 52,870,000 | 54,490,000 |
| Colorado Health Facilities Authority Revenue Bonds, Series 1989B, net of premium of $15,566 and $33,056 at December 31, 2012 and 2011, respectively; fixed interest rates | 2,580,566 | 3,743,056 |
| Colorado Health Facilities Authority Revenue Bonds, Series 1989C, net of premium of $10,377 and $22,052 at December 31, 2012 and 2011, respectively; fixed interest rates | 1,720,377 | 2,497,052 |
| Other long-term debt | 98,600 | 128,475 |
| Total long-term debt | 176,457,814 | 151,534,118 |
| Less current portion | (7,425,000) | (6,610,000) |
| | $ 169,032,814 | $ 144,924,118 |

The fair value of the outstanding Colorado Health Facilities Authority (the Authority) Revenue Bonds as of December 31, 2012 and 2011 was approximately $184,329,000 and $155,883,000, respectively, based on quoted market prices of the same or similar issues. The carrying amount of other long-term debt approximates fair value as of December 31, 2012 and 2011.

### *(a)* ***Series 2012***

In August 2012, the Colorado Health Facilities Authority issued $30,000,000 aggregate principal amount of its Revenue Bonds, Series 2012 dated August 28, 2012. The proceeds of the Series 2012 Bonds were loaned to the Hospital pursuant to a Bond Indenture of Trust between the Hospital, the Authority, and the Bond Trustee. The proceeds from the Series 2012 Bonds were used to (i) finance the expansion, renovation, improvement, and equipping of the Hospital’s healthcare facilities at its Foothills Campus, (ii) reimburse the Hospital for certain capital expenditures, and (iii) pay costs associated with the issuance of the 2012 Bonds.

The Series 2012 Bonds are payable in installments through October 1, 2042, bearing fixed interest rates from 2.0% to 5.0%.

No reserve fund securing the Series 2012 Bonds is required to be funded.

*(b)* ***Series 2010***

In December 2010, the Colorado Health Facilities Authority issued $66,030,000 aggregate principal amount of its Revenue Bonds, Series 2010A dated December 1, 2010, and $26,595,000 aggregate principal amount of its Refunding Revenue Bonds, Series 2010B dated December 1, 2010. The proceeds of the Series 2010 Bonds were loaned to the Hospital pursuant to a Bond Indenture of Trust between the Hospital, the Authority, and the Bond Trustee. The proceeds from the Series 2010A Bonds were used together with other available funds to (i) refund the Series 1994B Bonds and the Variable Rate Series 2003B Bonds (ii) provide $25,000,000 of new money to finance costs associated with a strategic initiative to optimize service delivery by expanding the Foothills Campus to deliver all acute care inpatient services, and to renovate the Broadway Campus to accommodate services transferred from the Mapleton Campus, and (iii) pay costs associated with the issuance of the 2010A Bonds. The proceeds from the Series 2010B Bonds were used to refund the Variable Rate Series 2003A Bonds and to pay costs associated with the issuance of the 2010B Bonds.

The Series 2010A Bonds are payable in installments through October 1, 2035, bearing fixed interest rates from 3.0% to 6.0%. The Series 2010A Bonds maturing on October 1, 2030 and 2035 are subject to mandatory sinking fund redemptions each October 1.

A Debt Service Reserve Fund securing the Series 2010A Bonds is required to be funded if ratings on the bonds fall to “BBB+” or lower by Standard & Poor’s Ratings Services or “Baa1” or lower by Moody’s Investors Service, Inc. or cash on hand is less than 100 days of operating expenses.

The Series 2010B Bonds mature on October 1, 2033, and are subject to mandatory sinking fund redemptions each October 1. The Series 2010B Bonds are owned by JPMorgan Chase Bank, N.A. (the Bank) in accordance with a Bank Bondowner Agreement. The Bank may tender the Series 2010B Bonds for purchase in whole on December 1, 2017, December 1, 2022, or December 1, 2027. Interest on the Series 2010B Bonds is payable monthly based on a variable interest rate. The weighted-average-interest rate was 1.39% during 2012 and 2011. On or before 180 days prior to an applicable tender date, the Hospital may request the Bank to extend the Bank Bondowner Agreement to the next tender date, and if agreed to by the Bank, the agreement will be amended, which may include the variable interest rate formula. The Series 2010B Bonds may be converted to Serial Bonds at a Fixed Rate Mode. A Debt Service Reserve Fund securing the Series 2010B Bonds is required to be funded if the bonds have been converted to a Fixed Rate Mode and if ratings on the bonds fall as described for 2010A Bonds above.

*(c)* ***Series 2000***

In October 2000, the Authority issued $65,000,000 aggregate principal amount of its Variable Rate Demand Hospital Revenue Bonds, Series 2000 (Series 2000 Bonds) dated October 1, 2000. The bond issuance resulted in net proceeds to the Hospital of approximately $64.5 million. The proceeds of the Series 2000 Bonds were loaned to the Hospital pursuant to a Bond Indenture of Trust between the Hospital, the Authority, and the Bond Trustee. The net proceeds from the Series 2000 Bonds were used to pay certain costs relating to the expansion and renovation of the Hospital and purchases of capital equipment. The Series 2000 Bonds are payable in installments through October 1, 2028. The Series 2000 Bonds are backed by an irrevocable letter of credit, which expires May 20, 2015. At December 31, 2012 and 2011, no borrowings under the letter of credit were outstanding. The principal of any draws on the letter of credit with no event of default are due in 12 equal quarterly installments commencing 367 days after the draw on the letter of credit. With an event of default, principal of any draws is due on demand.

The Hospital is required to make deposits with the Bond Trustee for both principal and interest payments. The weighted average interest rate was 0.17% and 0.18% during 2012 and 2011, respectively.

*(d)* ***Series 1989B and 1989C***

In July 1989, the Authority issued $25,000,000 in variable rate bonds. The bond issuance resulted in net proceeds to the Hospital of approximately $24.4 million. The proceeds from the bonds were loaned to the Hospital pursuant to a Bond Indenture of Trust between the Hospital, the Authority, and the Bond Trustee. The proceeds of the bonds were used to acquire the Mapleton Campus, and to fund other projects and equipment purchases. In August 2000, subject to certain conditions, the Colorado Health Facilities Authority Variable Rate Demand Hospital Revenue Bonds Series 1989B and 1989C (Series 1989 Bonds) were converted from variable rate bonds bearing interest at a weekly rate to fixed interest rate bonds with interest rates ranging from 4.75% to 6.00%. Upon conversion, the Series 1989 Bonds were designated as the Colorado Health Facilities Authority Hospital Revenue Bonds Series 1989B and 1989C.

*(e)* ***Aggregate Annual Maturities of Long-Term Debt***

Amounts due for long-term debt are as follows:

For the year ending December 31, 2012:

| | |
|---|---|
| 2013 | $ 7,425,000 |
| 2014 | 7,660,000 |
| 2015 | 7,990,000 |
| 2016 | 8,360,000 |
| 2017 | 8,650,000 |
| Thereafter | 136,372,814 |
| Total | $ 176,457,814 |

The Series 1989, 2000, 2010, and 2012 Bonds are secured by substantially all of the Hospital's property and equipment and a priority interest in revenue. The Hospital has also agreed to various restrictive covenants including limitations on incurring additional indebtedness and maintaining certain levels of net income available for debt service, as defined.

*(f)* ***Interest Rate Swaps***

The Hospital uses interest rate swap agreements to manage interest costs and risks associated with changing interest rates on its variable rate debt. The differential to be paid or received is accrued as interest rates change and is recognized as unrealized gain or loss on interest rate swaps over the life of the agreements. The counterparty to the interest rate swaps is a major financial institution. The estimated fair value of the interest rate swaps, which is the gross unrealized market gain or loss, is based on quotes obtained from the counterparty. Interest rate swaps are subject to credit risk (if the counterparty fails to meet its obligations) and interest rate risk. The Hospital could be obligated to pay more under its swap agreements than it receives as a result of interest rate changes. Collateral posting is required whenever the negative fair value of the swaps exceeds threshold amounts defined in the credit support annex agreement based upon the Hospital’s bond rating. The Hospital has collateral posted with the counterparty in the amount of $0 and $1,510,135 as of December 31, 2012 and 2011, respectively.

In 2008, management designated an interest rate swap agreement as a cash flow hedging instrument for the Series 2003 Bonds, and determined the agreement qualifies for hedge accounting under the provisions of FASB ASC Topic 815. As a result, the agreement was recorded at its fair value with subsequent changes in fair value excluded from excess of revenues over expenses, except for the ineffective portion. The Series 2003 Bonds were refunded on December 31, 2010, in conjunction with the issuance of the Series 2010A and 2010B Bonds. After the refunding the swap agreement no longer qualifies for hedge accounting and all changes in its fair value subsequent to December 1, 2010, are included in excess of revenues over expenses. The value of the swap loss will be amortized over the life of the original term of the Series 2003 Bond.

The Hospital had entered into the following interest rate swap agreements as of December 31, 2012 and 2011:

| Notional 2012 | Notional 2011 | | Rate Paid by Hospital | Rate Received by Hospital | Effective Date | Termination Date | Fair Value 2012 | Fair Value 2011 | Purposes |
|---|---|---|---|---|---|---|---|---|---|
| $ 100,000,000 | $ 100,000,000 | | 1-month BMA | 78% of 1-month Libor | 07/21/03 | 07/21/23 | $ (1,190,468) | $ (2,997,987) | ( c ) |
| $ 100,000,000 | 100,000,000 | | 1-month BMA | 67% of 1-month Libor + 0.56% | 07/21/03 | 07/21/23 | 2,438,606 | 512,362 | ( c ) |
| $ 15,975,000 | 16,990,000 | (a) | Fixed (3.55%) | 67% of 1-month Libor | 10/01/04 | 10/01/23 | (2,575,167) | (2,655,820) | ( c ) |
| $ 43,893,068 | 45,209,288 | (b) | Fixed (3.727%) | 67% of 1-month Libor | 04/05/08 | 12/01/33 | (10,897,382) | (11,212,507) | ( d ) |
| | | | | | | | $ (12,224,411) | $ (16,353,952) | |

(a) Notional amounts reduce annually through 2023.

(b) Notional amounts reduce annually beginning December 1, 2008 through 2033.

(c) To protect against an increase in variable interest rates.

(d) Prior to 12/01/2010 refunding of 2003 bonds, this was a cash flow hedge to protect against increase in variable interest rates for the 2003 bonds; after refunding of 2003 bonds purpose is general protection against an increase in variable interest rates.

The fair value of the swaps was $(12,224,411) and $(16,353,952) as of December 31, 2012 and 2011, respectively. The fair value of the swaps is reported as a derivative asset or liability in the accompanying balance sheets. Unrealized gains and losses in the fair value of the swaps, net of related interest income, are recognized in other income (ineffective portion) and other changes in unrestricted net assets (effective portion) as follows:

| | 2012 | 2011 |
|---|---|---|
| Unrealized gain (loss) on interest rate swaps | | |
| Reported in other income | $ 4,369,176 | $ (4,291,363) |
| Amortization of previously recognized ineffective amount | (239,635) | (239,635) |
| Swap interest less expense | (1,572,271) | (1,704,926) |
| Unrealized gain (loss) on interest rate swaps, net of interest income | $ 2,557,270 | $ (6,235,924) |

## (9) Net Assets Held by the Foundation

Temporarily restricted net assets held by the Foundation at December 31 are for the following purposes.

| | 2012 | 2011 |
|---|---|---|
| Unrestricted | $ 18,206,704 | $ 14,640,423 |
| New medical office Foothill facilities | 6,922,808 | 2,469,188 |
| Red Lipstick fund | 226,100 | - |
| Cancer center | 145,973 | 670,931 |
| Charitable remainder trusts available for unrestricted use | 278,242 | 317,866 |
| Diabetes center | 146,467 | 145,000 |
| Other hospital programs | 10,251 | 14,844 |
| Mante international program | 11,188 | 6,938 |
| | $ 25,947,733 | $ 18,265,190 |

Permanently restricted net assets held by the Foundation at December 31, of which the income is available for the following purposes, are as follows:

| | 2012 | 2011 |
|---|---|---|
| Perpetual trusts | $ 2,543,707 | $ 2,436,391 |
| Endowments | 1,861,244 | 1,834,831 |
| Diabetes services | 360,210 | 358,160 |
| Cancer services | 89,776 | 89,776 |
| Scholarships | 83,000 | 83,000 |
| Neonatal program at Foothills facility | 48,094 | 48,094 |
| Heart and surgery center | 25,000 | 25,000 |
| | $ 5,011,031 | $ 4,875,252 |

*(a)* ***Endowment***

The Foundation's endowment consists of approximately 30 individual endowment funds established for a variety of purposes. These endowments include both donor-restricted endowment funds and funds established by the Board of Trustees to function as donor-restricted endowments. As required by GAAP, net assets associated with endowment funds, including funds established by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: The Board of Trustees of Boulder Community Hospital Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Foundation and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments

(6) Other resources of the Foundation
(7) The investment policies of the Foundation

Changes in endowment net assets for the years ended December 31, 2012 and 2011:

| | Unrestricted | Permanently Restricted | Total |
|---|---|---|---|
| Endowment net assets, January 1, 2011 | $ 645,573 | $ 2,328,731 | $ 2,974,304 |
| Net investment return | 485,310 | - | 485,310 |
| Appropriation of endowment assets for expenditures | (83,393) | - | (83,393) |
| Contributions | - | 110,130 | 110,130 |
| Endowment net assets, December 31, 2011 | 1,047,490 | 2,438,861 | 3,486,351 |
| Net investment return | 710,775 | - | 710,775 |
| Appropriation of endowment assets for expenditures | (129,603) | - | (129,603) |
| Contributions | - | 28,463 | 28,463 |
| Endowment net assets, December 31, 2012 | $ 1,628,662 | $ 2,467,324 | $ 4,095,986 |

Reconciliation of endowment net assets to permanently restricted net assets:

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Endowments | $ 2,467,324 | $ 2,438,861 |
| Beneficial interest in perpetual trusts | 2,543,707 | 2,436,391 |
| Total permanently restricted net assets | $ 5,011,031 | $ 4,875,252 |

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2012 or 2011.

Return objectives and risk parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in short-term and long-term funds. Short-term funds are invested primarily in liquid, income producing instruments with minimum fluctuation potential. Instruments in this category will emphasize preservation of capital. Long-term funds are those where principal can be left undistributed for at least three years. These funds are invested to emphasize growth of capital and to outpace inflation. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5% plus the inflation rate, on an annualized basis. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy: The Foundation has a policy of appropriating for distribution each year a maximum of 5% of its endowment fund's average portfolio value over the prior three years through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow at an average rate of 5% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

## (10) The Community Hospital Association Retirement Plan

The Hospital has a noncontributory, defined benefit retirement plan (the Plan) covering the majority of employees. The Hospital makes contributions to the Plan based on the funding recommendations of the Plan's actuary and regulatory requirements. Based upon the actuary's calculations, management believes they are in compliance with the funding requirements under the Pension Protection Act of 2006. The Plan uses the projected unit credit cost method for financial reporting and the unit credit cost method for funding purposes. Participation in the Plan was closed to employees hired on or after January 1, 2010.

Effective July 1, 2012, the Plan was amended to include a lump-sum payment option. Once a participant reaches at least age 55, has 10 years of vested service and terminates employment, he or she will have the option of taking a lump-sum benefit or a monthly payment.

Key financial information and assumptions related to the Plan are summarized below:

| | December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Change in projected benefit obligation (PBO) | | |
| PBO, beginning of year | $ 100,333,049 | $ 84,145,802 |
| Service cost | 4,775,086 | 4,187,551 |
| Interest cost | 5,191,835 | 4,873,452 |
| Actuarial loss (gain) | 21,801,472 | 9,205,657 |
| Benefits paid | (3,652,951) | (2,079,413) |
| Plan Amendment | 1,693,868 | - |
| PBO, end of year | $ 130,142,359 | $ 100,333,049 |

The accumulated benefit obligation is $116,649,940 and $92,679,446 as of December 31, 2012 and 2011, respectively.

| | **2012** | **2011** |
|---|---|---|
| Change in plan assets | | |
| Fair value of plan assets, beginning of year | $ 68,739,545 | $ 67,093,353 |
| Actual return on assets | 7,068,734 | (274,395) |
| Employer contributions | 6,233,736 | 4,000,000 |
| Benefits paid | (3,652,951) | (2,079,413) |
| Fair value of plan assets, end of year | $ 78,389,064 | $ 68,739,545 |
| Funded status of the plan, end of year (PBO, less plan assets) | $ (51,753,295) | $ (31,593,504) |

| | December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Assumptions and dates used to determine benefit obligation | | |
| Discount rate | 4.21% | 5.24% |
| Compensation increase rate | 2.99% | 4.07% |
| Measurement date | 12/31/12 | 12/31/11 |
| Census date | 01/01/12 | 01/01/11 |
| Assumptions used to determine expense: | | |
| Assumptions to determine expense | | |
| Discount rate | 5.24% | 5.83% |
| Long-term rate of return on assets | 7.00% | 7.00% |
| Compensation increase rate | 2.99% | 4.07% |

| | December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Amounts recognized in statements of operations | | |
| Net periodic benefit cost | | |
| Service cost | $ 4,775,086 | $ 4,187,551 |
| Interest cost | 5,191,835 | 4,873,452 |
| Expected return on assets | (4,934,112) | (4,683,007) |
| Prior service cost amortization | 6,426 | 8,813 |
| Net loss amortization | 2,585,779 | 1,538,449 |
| Net periodic benefit cost | $ 7,625,014 | $ 5,925,258 |

Amounts recognized in change in net assets not yet recognized as components of periodic benefit cost consist of the following:

| | Pension Benefits | |
|---|---|---|
| | **2012** | **2,011** |
| Total net loss | $ 53,027,240 | $ 35,946,169 |
| Prior service cost | 1,709,174 | 21,732 |
| | $ 54,736,414 | $ 35,967,901 |

***Asset Allocation by Asset Category***

The Plan's investments at December 31 are as follows (see Note 14 for a description of Fair Value Measurements):

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | **Fair Value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **December 31, 2012** | | | | |
| Cash | $ 2,657,371 | $ 2,657,371 | $ - | $ - |
| Mutual bond funds | 33,180,862 | 33,180,862 | - | - |
| Asset-Backed Securities | 3,504,555 | - | 3,504,555 | - |
| Domestic equity funds | 21,767,107 | 16,090,119 | 5,676,988 | - |
| International equity funds | 10,909,739 | 10,909,739 | - | - |
| Long/short equity funds | 5,539,577 | - | 5,539,577 | - |
| Fund of hedge funds | 829,853 | - | - | 829,853 |
| Total | $ 78,389,064 | $ 62,838,091 | $ 14,721,120 | $ 829,853 |

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | **Fair Value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **December 31, 2011** | | | | |
| Cash | $ 5,683,350 | $ 5,683,350 | $ - | $ - |
| Mutual bond funds | 33,213,780 | 33,213,780 | - | - |
| Domestic equity funds | 14,542,999 | 9,522,033 | 5,020,966 | - |
| International equity funds | 9,014,080 | 9,014,080 | - | - |
| Long/short equity funds | 5,195,024 | - | 5,195,024 | - |
| Fund of hedge funds | 1,090,312 | - | - | 1,090,312 |
| Total | $ 68,739,545 | $ 57,433,243 | $ 10,215,990 | $ 1,090,312 |

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the table above using significant unobservable (Level 3) inputs:

| | |
|---|---|
| Balance at January 1, 2011 | $ 1,551,965 |
| Relating to assets still held at the reporting date | (2,410) |
| Relating to assets sold during the period | 14,503 |
| Purchases, issuances, and settlements | (473,746) |
| Balance, December 31, 2011 | 1,090,312 |
| Actual return on Plan assets | |
| Relating to assets still held at the reporting date | 24,913 |
| Relating to assets sold during the period | (1,954) |
| Purchases, issuances, and settlements | (283,418) |
| Balance, December 31, 2012 | $ 829,853 |

The Hospital employs a total return investment approach, whereby a mix of equity and fixed income investments are used to maximize the long-term return of Plan assets with a prudent level of risk. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns of individual assets. The expected return is generally based on historical returns.

Expected benefit payments for the year ending December 31:

| | |
|---|---|
| 2013 | $ 6,820,000 |
| 2014 | 5,850,000 |
| 2015 | 6,230,000 |
| 2016 | 7,150,000 |
| 2017 | 8,170,000 |
| 2018–2022 | 49,120,000 |

The Hospital expects to contribute approximately $6,000,000 to the Plan in 2013.

The estimated net actuarial loss and prior service cost that will be amortized in 2013 are $4,593,915 and $197,081, respectively.

## (11) Functional Expenses

The Hospital provides general health care services to residents within its geographic location including inpatient, outpatient, emergency, and home health services. The Hospital's Cardiac Services, Surgical Services, Child/Maternal, Cancer, Behavioral Health, and Rehabilitation programs provide the community with a broad continuum of care. Expenses related to providing these services are as follows:

| | 2012 | 2011 |
|---|---|---|
| Health care services | $ 171,703,956 | $ 165,050,678 |
| Physician services | 36,557,264 | 28,634,648 |
| General and administrative | 72,811,730 | 68,805,082 |
| Total | $ 281,072,950 | $ 262,490,408 |

## (12) Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are generally insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2012 and 2011, based on net receivables, is as follows:

| | 2012 | 2011 |
|---|---|---|
| Medicare | 14% | 16% |
| Medicaid | 5% | 2% |
| HMO/PPO and commercial insurance | 81% | 82% |
| Patients (self-pay) | 0% | 0% |
| Total | 100% | 100% |

## (13) Commitments and Contingencies

The Hospital is a defendant or co-defendant in certain civil action suits involving personal injury damage claims by former patients, whereby plaintiffs are seeking damages. Management, based upon advice from legal counsel, estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results of its operations.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in substantial compliance with fraud and abuse compliance requirements, as well as other applicable government laws and regulations. Compliance with such laws and regulations is subject to government review and interpretation as well as regulatory actions.

**(14) Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

### *Recurring Measurements*

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2012 and 2011:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | **Fair Value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **December 31, 2012** | | | | |
| Bond funds | $ 102,205,604 | $ 102,205,604 | $ - | $ - |
| Municipal bonds | 1,608,462 | - | 1,608,462 | - |
| U.S. government obligations | 7,812,851 | 7,812,851 | - | - |
| Corporate bonds and notes | 71,016,602 | 71,016,602 | - | - |
| Asset-Backed Securities | 11,424,605 | - | 11,424,605 | - |
| Common stock | 7,040,454 | 7,040,454 | - | - |
| Equity funds | 43,355,539 | 34,541,528 | 8,814,011 | - |
| International equity funds | 31,471,323 | 31,471,323 | - | - |
| Long/short equity fund | 16,862,703 | - | 16,862,703 | - |
| Long/short fixed income funds | 27,031,225 | - | 24,321,352 | 2,709,873 |
| Fund of hedge funds | 2,074,003 | - | - | 2,074,003 |
| | 321,903,371 | 254,088,362 | 63,031,133 | 4,783,876 |
| Cash and cash equivalents, at fair value | 10,448,118 | - | - | - |
| Accrued interest, at cost | 621,949 | - | - | - |
| | $ 332,973,438 | $ 254,088,362 | $ 63,031,133 | $ 4,783,876 |
| Interest rate swap agreements | $ (12,224,411) | $ - | $ (12,224,411) | $ - |

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | **Fair Value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **December 31, 2011** | | | | |
| Bond funds | $ 97,278,551 | $ 97,278,551 | $ - | $ - |
| Municipal bonds | 9,819,461 | - | 9,819,461 | - |
| U.S. government obligations | 6,589,766 | 6,589,766 | - | - |
| Corporate bonds and notes | 76,546,387 | 65,921,135 | 10,625,252 | - |
| Common stock | 6,112,973 | 6,112,973 | - | - |
| Equity funds | 25,637,674 | 17,844,145 | 7,793,529 | - |
| International equity funds | 20,338,720 | 20,338,720 | - | - |
| Long/short equity fund | 13,858,347 | - | 13,858,347 | - |
| Long/short fixed income funds | 14,582,864 | - | 13,213,353 | 1,369,511 |
| Fund of hedge funds | 2,845,573 | - | - | 2,845,573 |
| | 273,610,316 | 214,085,290 | 55,309,942 | 4,215,084 |
| Cash and cash equivalents, at fair value | 7,949,787 | - | - | - |
| Accrued interest, at cost | 969,866 | - | - | - |
| | $ 282,529,969 | $ 214,085,290 | $ 55,309,942 | $ 4,215,084 |
| Interest rate swap agreements | $ (16,353,952) | $ - | $ (16,353,952) | $ - |

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2012. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

*(a)* ***Assets Limited as to Use (Investments)***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the table below for inputs and valuation techniques used for Level 3 securities.

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient, which includes the long/short equity fund, and long/short fixed income funds. Investments for which the funds have ongoing redemption and subscription activity are categorized as Level 2. Investments for which there is not observable data such as ongoing redemption and subscription activity are categorized as Level 3.

Fair value determinations for Level 3 measurements of securities are the responsibility of Management. Management reviews these investments challenges to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

*(b)* ***Interest Rate Swap Agreement***

The fair value is estimated using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

### *Level 3 Reconciliation*

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheets using significant unobservable (Level 3) inputs:

| | Fund of Hedge Funds | Long/Short Fixed Income Funds |
|---|---|---|
| Balance, January 1, 2011 | $ 4,118,877 | $ - |
| Total realized and unrealized gains and losses included in change in net assets | 97,610 | (130,489) |
| Purchases, issuances, and settlements | (1,370,914) | 1,500,000 |
| Balance, December 31, 2011 | 2,845,573 | 1,369,511 |
| Purchases | - | 1,000,000 |
| Sales | (912,980) | - |
| Total realized and unrealized gains and losses included in change in net assets | 141,410 | 340,362 |
| Balance, December 31, 2012 | $ 2,074,003 | $ 2,709,873 |

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

*(c)* ***Cash and Cash Equivalents***

The carrying amount approximates fair value.

*(d)* ***Interest in Net Assets of Boulder Community Hospital Foundation***

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement.

*(e)* ***Notes Payable and Long-Term Debt***

Fair value is estimated based on the borrowing rates currently available to the Hospital for bank loans with similar terms and maturities. For variable rate debt, management believes current borrowing rates approximate the variable rates of the bonds.

**(15) Subsequent Event**

Subsequent events have been evaluated through April 15, 2013, which is the date the financial statements were available to be issued.

The Anderson Medical Building at the Foothills Campus was completed in January 2013. A portion of the medical office condominiums are occupied by Boulder Heart (hospital employed cardiologists) and several were sold to physician specialists in the community.

The Foothills Surgery Center, LLC, of which the Hospital is a member, is scheduled to open in spring 2013.

# SUPPLEMENTARY INFORMATION

**THE COMMUNITY HOSPITAL ASSOCIATION**
(d/b/a Boulder Community Hospital)

Summary of Expenditures of Federal Awards

Year Ended December 31, 2012

| Cluster/Program | Federal Agency Pass-through Entity | CFDA Number | | Amount Expended |
|---|---|---|---|---|
| Boulder-Tanzania Zonal Laboratories | Department of Health and Human Services passed through American International Health Alliance Training Center | 93.145 | $ | 107,872 |
| Ryan White Part C Outpatient EIS Program | Department of Health and Human Services | 93.918 | | 315,768 |
| Ryan White Adherence/Counseling/SBIRT | Department of Health and Human Services passed through Colorado Department of Public Health and Environment | 93.917 | | 203,537 |
| Total Federal Awards | | | $ | 627,177 |

**Notes to Schedule**

1. This schedule includes the federal awards activity of Boulder Community Hospital and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Of the federal expenditures presented in this schedule, the Hospital provided no federal awards to subrecipients.

Wells Fargo Center
1700 Lincoln Street, Suite 1400
Denver, CO 80203-4514
303.861.4545 Fax 303.832.5705 www.bkd.com

## Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
The Community Hospital Association d/b/a
Boulder Community Hospital
Boulder, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The Community Hospital Association d/b/a/ Boulder Community Hospital (the Hospital), which comprise the balance sheet as of December 31, 2012, and the related statement of operations and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 15, 2013.

### Internal Control Over Financial Reporting

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Hospital's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Board of Directors
The Community Hospital Association d/b/a
Boulder Community Hospital

## Compliance

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Other Matter

We noted certain matters that we reported to the Hospital's management in a separate letter dated April 15, 2013.

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
April 15, 2013

BKD LLP
CPAs & Advisors

Wells Fargo Center
1700 Lincoln Street, Suite 1400
Denver, CO 80203-4514
303.861.4545 Fax 303.832.5705 www.bkd.com

# Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Directors
The Community Hospital Association d/b/a
Boulder Community Hospital
Boulder, Colorado

## Compliance

We have audited the compliance of The Community Hospital Association d/b/a Boulder Community Hospital (the Hospital) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### *Management's Responsibility*

Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Hospital's management.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the compliance for The Community Hospital Association d/b/a Boulder Community Hospital's major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination on the Hospital's compliance with those requirements.

Board of Directors
The Community Hospital Association d/b/a
Boulder Community Hospital

***Opinion on Each Major Federal Program***

In our opinion, The Community Hospital Association d/b/a Boulder Community Hospital complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

## Report on Internal Control Over Compliance

The management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal over compliance that might be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
April 15, 2013

**THE COMMUNITY HOSPITAL ASSOCIATION**
(d/b/a Boulder Community Hospital)

Schedule of Findings and Questioned Costs

Year Ended December 31, 2012

## Section I - Summary of Auditor's Results

*Financial Statements*

1. Type of auditor's report issued:

☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. Internal control over financial reporting:

| | | |
|---|---|---|
| Significant deficiency(ies) identified? | ☐ Yes | ☒ None Reported |
| Material weakness(es) identified? | ☐ Yes | ☒ No |

3. Noncompliance material to the financial statements noted? ☐ Yes ☒ No

*Federal Awards*

4. Internal control over major programs:

| | | |
|---|---|---|
| Significant deficiency(ies) identified? | ☐ Yes | ☒ None Reported |
| Material weakness(es) identified? | ☐ Yes | ☒ No |

5. Type of auditor's report issued on compliance for major programs:

☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? ☐ Yes ☒ No

7. Identification of major programs:

| Cluster/Program | CFDA Number |
|---|---|
| Ryan White Part C Outpatient EIS Program | 93.918 |

8. Dollar threshold used to distinguish between Type A and Type B programs: $100,000.

9. Auditee qualified as low risk auditee? ☒ Yes ☐ No

**THE COMMUNITY HOSPITAL ASSOCIATION**
(d/b/a Boulder Community Hospital)

Schedule of Findings and Questioned Costs

Year Ended December 31, 2012

## Findings Required to be Reported by *Government Auditing Standards*

| Reference Number | Finding | Questioned Costs |
|---|---|---|

No matters are reportable.

## Findings Required to be Reported by OMB Circular A-133

| Reference Number | Finding | Questioned Costs |
|---|---|---|

No matters are reportable.

**THE COMMUNITY HOSPITAL ASSOCIATION**
(d/b/a Boulder Community Hospital)

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2012

| Reference Number | Finding | Questioned Costs |
|---|---|---|
| | No matters are reportable. | |